EFFECT OF MERGERS AND ACQUISITIONS ON FINANCIAL PERFORMANCE OF LISTED COMMERCIAL BANKS AT NAIROBI SECURITIES EXCHANGE

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ABSTRACT

Mergers and Acquisitions (M&A) are actively utilized for competitive expansion, with potential benefits including improved management efficiency, enhanced production techniques, and increased market power. The study's primary aim was to examine the impact of various types of mergers, including horizontal, vertical, conglomerate, and product extension mergers, on the financial performance of firms listed in the Nairobi Securities Exchange (NSE). Data was collected from 11 NSE listed commercial banks through Secondary data collection sheet and analyzed using SPSS. Descriptive and inferential statistical analyses, including correlations and regression, were employed to establish relationships between the study variables. Diagnostic tests revealed no autocorrelation (Durbin-Watson statistic = 1.767) and no significant multicollinearity (VIFs all < 10), ensuring the data's reliability. Normality tests indicated that the data was within the accepted range for skewness and kurtosis (-1.96 to 1.96), signifying its normal distribution. The absence of these issues allowed for the subsequent analysis of associations between the study variables. The study concludes that mergers and acquisitions significantly impact the financial performance of banks in the Nairobi Securities Exchange, with strong correlations and regression analyses emphasizing the critical role of leverage, liquidity, bank growth, and bank size. Findings align with previous research, underlining the importance of strategic decision-making and post-merger integration. Policymakers should establish transparent guidelines, while researchers should explore deeper dynamics, and practitioners should prioritize due diligence and effective integration strategies. Further research could focus on systemic risk implications, integration mechanisms, and stakeholder impact beyond financial metrics.

Keywords: *Leverage, Liquidity, Bank Growth, Bank Size*

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INTRODUCTION

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period (Alexander, 2018). Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. A company's financial performance tells investors about its general well-being. It's a snapshot of its economic health and the job its management is doing providing insight into the future: whether its operations and profits are on track to grow, and the outlook for its stock. Financial performance indicators, also known as key performance indicators (KPIs), are quantifiable measurements used to determine, track, and project the economic well-being of a business. They act as tools for both corporate insiders (like management and board members) and outsiders (like research analysts and investors) to analyze how well the company is doing especially in regard to competitors and identify where strengths and weaknesses lie.

Mergers and acquisitions (M&A) are two distinct strategies used by companies to achieve specific objectives. A merger involves the mutual decision of two or more companies to combine and operate as a single entity. In this process, the merging companies consolidate their assets, liabilities, and operations to form a new, larger organization. Mergers are often executed to harness synergies, expand market share, or achieve economies of scale (Borodin, Sayabek, Islyam, & Panaedova, 2020). On the other hand, acquisitions occur when one company takes over another, either through a purchase of a controlling stake or a complete buyout. Unlike mergers, acquisitions result in one company being absorbed by the acquiring entity, leading to the acquired company losing its legal existence (Hughes, Hughes, Stokes, Lee, Rodgers, & Degbey, 2020). Acquisitions are commonly pursued to gain access to new markets, technologies, or intellectual property, and they can serve as a means of rapid growth or diversification for the acquiring company. Both mergers and acquisitions are strategic business decisions aimed at achieving specific goals, albeit through different pathways and approaches (Sha, Kang, & Wang, 2020).

According to Rosinski (2014) cross-border Mergers continue to be an important feature of the market. It currently accounts for 36% of total volume versus 31% in 2015. An increase in China's foreign business contributed to overall cross-border M&A growth, as Chinese companies sought attractive opportunities abroad. Viverita (2018) studied the impact of M&As on banks in Indonesia. The study results indicated improvements in return on asset, return on equity, Ghimire (2019) studied the effect of merger on the financial performance of commercial bank when Nepal Rastra Bank introduced a forceful merger bylaws policy in the year of 2011. The study concluded that Returns on Assets, earning per share, profit margin, liquidity increased significantly after the merger of the bank. As established by Amir & Ghitti (2020), the HP and Compaq merger also created the largest personal computers company in India. Internationally, as well this move was supposed to put IBM under immense pressure. Organic route of growth takes time. Organizations need place, people, regulatory approval and other resources to expand into newer product categories or geographical territories.

Ochieng (2015) noted that when Commercial Bank of Africa (CBA) acquired First American Bank of Kenya (FABK), CBA's 2005 results showed sharp decline in earnings and lower regulatory ratios compared to the stand alone CBA pre-acquisition. Chesang (2016) established that though some banks indicated a reduction in performance after the merger period, merger restructuring could still be considered as a recommended option to improve the overall financial performance of weak medium sized banks. Consequently, Mergers of commercial banks in Kenya is not exactly a recent phenomenon. Since 1989, Kenya witnessed the merger of 9 (nine)

financial institutions to create the consolidated bank of Kenya limited. This incorporation was under the financial sector reform program established by the Government of Kenya with the main aim of taking over and restructuring various ailing institutions. In the year 2005, the Minister for Finance proposed to raise the minimum core capital for banks to 1 billion shillings from 250 million shillings giving 2012 as the deadline for all banks to comply (CBK, 2017).

Mergers are on an increasing trend in the Kenyan banking industry. Moreover, they have intensified after the financial crisis of 2008 as more regulatory bodies were formed to monitor Banks performance (Ogada & Achoki, 2016). As it is, we expect more banks to merger to meet the depository threshold set by Central bank for them to meet expected returns. The merged deal between Commercial Bank of Africa and NIC Bank supports this. It is expected that some state owned banks are yet to merge as they fail to reach expected shareholders' value. Actually, from year 2000 to 2017 only 13 Commercial Banks merged in Kenya (CBK, 2017). The Central Bank of Kenya was mandated to establish and implement monetary policies and fostering proper functioning of the financial system by nurturing its liquidity and solvency. In the past 15 years 13 commercial banks have had to merge in Kenya. For example, CFC Bank and Stanbic Bank merged to form CFC-Stanbic Bank, Kenya Commercial Bank (KCB) and Savings and Loan (S&L) merged to form Kenya Commercial Bank, Jamii Bora Bank Ltd CBK, was formed by merging City Finance Bank Ltd and Jamii Bora Ltd and finally Equatorial Commercial Bank was formed through a merger between Southern Credit Bank and Equatorial Commercial Bank Ltd (CBK, 2010) which was later acquired by Mwalimu Sacco Society ltd (CBK, 2015).

It is also predicted that state owned commercial banks may soon restructure through merger deal as they fail to reach expected value (Mugo, 2019). Managers in the merging firms opting to take additional action in view to gain good returns face extreme pressure. Managers in such conditions are forced to engage in riskier actions projects to reduce costs and increase cash flows through restructuring process to cumulate and sell off redundant assets. If this fails, mergers are inevitable. Commercial Banks' Mergers in Kenya has led to some banks expand their operations in East Africa and beyond to diversify their operations and enjoy the synergy effect. The global trend is to converge and ensure financial services are offered under one roof for banks, insurance and stock brokerage in order to facilitate a "one stop shop" financial solution.

Statement of the Problem

Mergers are continuously being adopted for progressive firm competitiveness by expanding market share and minimizing business risk. Majorly, mergers are used to diversify the firm's portfolio as a risk management strategy (Kemal, 2015). Furthermore, M&A are used to aid firms penetrate to new geographical markets, to support growth by capitalizing on economies of scale and increase on customer base among other reasons. Globally, the relationship between Mergers and Acquisitions and firm performance has been broadly studied in the previous researches (Mboroto, 2015; Lai *et al.*, 2015). However, it can be said that, the findings are still inconclusive. Some empirical studies show positive results while other researchers indicate the contrary. Actually, these studies indicate mixed reactions on the effect of Mergers and Acquisitions on banks' performance in Kenya. For instance, Ogada & Achoki (2016) concluded that there was a positive relationship between financial performance of the financial institution, operating synergy and financial synergy after mergers. Mwatsuma, Banafa, & Ibua (2020, found that there is general increase in the financial performance of the listed commercial banks after merger.

Mugo (2017), found out that merger was influencing profitability of banks. Mahonga & Matanda, (2019) found out that long-term liabilities, rapid market expansion, and large asset

base led to an improvement in the financial performance outcomes of Insurance companies in Kenya. Amu & Chigbu (2015), proved a significant improvement on their performance after merger and realized big share of dividend compared to the pre- merger period. Joash & Njangiru (2015) found out that shareholders' value increased on acquiring firms after merger. Nasikeu & Susan (2016), revealed a good return to shareholders, ensured by optimum and appropriate financing mix or proper balance of equity & debt fund. Kalam, (2021) found out that the combined firm's valuation would surpass the two firms which means synergies with performance. Contrary, Ndura (2015) established that mergers and acquisition did not affect financial performance of commercial banks after merger and acquisition in Kenya. In a nut shell, there is still lack of uniformity among the previous scholars on mergers. Besides in the context on Kenya, there still is a lack of sufficient literature on the effect of mergers on performance of commercial banks. Majority of studies have been on firm performance while ignoring other performance measures. Thus this research study will attempt to fill the gap in literature by examining the effect of mergers on financial performance of firms listed in Nairobi County.

Objectives

The general objective of this study was to determine the impact of mergers on the financial performance of listed banks in the Nairobi Securities Exchange. The study was guided by the following specific objectives:

- To determine the effect of leverage of mergers and acquisitions on the financial performance of listed banks in the Nairobi Securities Exchange
- To determine the effect of liquidity of mergers and acquisitions on the financial performance of listed banks in the Nairobi Securities Exchange
- To determine the effect of bank growth of mergers and acquisitions on the financial performance of listed banks in the Nairobi Securities Exchange
- To determine the effect of bank size of mergers and acquisitions on the financial performance of listed banks in the Nairobi Securities Exchange

Hypotheses

H_{o1}: Leverage of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange

H_{o2}: Liquidity of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange

H_{o3}: Bank growth of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange

H_{o4}: Bank Size of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange

LITERATURE REVIEW

Differential Efficiency Theory

According to differential theory of merger, one reason for a merger is that if the management of a company X is more efficient than the management of the company Y than it is better if company X acquires the company Y and increase the level of the efficiency of the company Y (Ali, Ormal, & Ahmad, 2018). According to this theory if some companies are operating at level which is below the optimum potential of the company than it is better if it is taken over by another company. This theory also implies that management of a company is also not efficient in running the company and therefore there are always chances that it will be taken over by other companies. Differential theory can be particularly helpful when a company decides to take over other company in the same industry because

than it would mean that company which is taking over other company can expand without much cost because of the efficient utilization of all the resources.

According to this theory, some firms operate below their potential and consequently have low efficiency. Such firms are likely to be acquired by other, more efficient firms in the same industry. This is because, firms with greater efficiency would be able to identify firms with good potential operating at lower efficiency (Nguyen, & Nguyen, 2018). They would also have the managerial ability to improve the latter's performance. However, a difficulty would arise when the acquiring firm overestimates its impact on improving the performance of the acquired firm. This may result in the acquirer paying too much for the acquired firm. Alternatively, the acquirer may not be able to improve the acquired firm's performance up to the level of the acquisition value given to it. The managerial synergy hypothesis is an extension of the differential efficiency theory.

Hubris Theory

This theory uses a psychological approach to explain the rationale behind mergers and acquisitions (Zona, Gomez-Mejia, & Withers, 2018). It assumes that managers of the acquiring firm tend to overestimate their abilities in turning around the fortunes of target firms. By this, managers of the acquiring firms due to their over optimism tend to make erroneous decisions which are often overpriced. According to Dong (2006), the overconfidence of managers of the acquiring firm often leads to the over bidding of the target firm; causing the winning bidder to have a bidding situation often referred to as the winner's curse. This winner's curse often leads to failure as the acquiring firm later on realizes they have overpaid for the target firm.

This theory further assumes that during the announcement of a possible merger or acquisition of the target firm, shareholders of the bidding acquiring firms tend to incur initial losses from the share price of the target firm's stock which tends to be a gain to shareholders of the target firm. According to Machiraju (2010) the moment an acquiring firm makes its intention clear to a target firm for a potential merger or acquisition, the share price of the target firm tend to increase because of the willingness of their shareholders to release their shares to the acquiring firm at a high premium which the acquiring firm is proposing. This ends up increasing the risk of failure after merger or acquisition. This theory will be used in this study to explain risk diversification strategies employed by managers in decisions relating to mergers and acquisitions.

Size and Return to Scale Theory

Benefits of size are usual source of "synergies". This refers to the positive incremental net gain associated with the combination of two firms through a merger or acquisition. Suppose firm A acquires firm B for cash. The synergy or total gain in value to the shareholders of A and B is Synergy = VAB - [VA + VB]. If the synergy is positive, then the combination of the two firms (VAB) is more valuable than the sum of the separate firms. As learnt from the first principles of finance, the value of an asset is the present value of its discounted Future cash flows. The cash flows from synergy are: $\Delta CFt = CFABt - [CFAt + CFBt]$. If positive, then the combined firm results in greater cash flow than the Sum of the separate firms. If no value is created through the combination of A and B, i.e. synergy = 0, then the merger is a zero-sum game and the gain to B shareholders is equal to the cost to A shareholder. If VAB > VA + VB, then both parties may benefit (Mueller, 2020).

In terms of economies of scale, the average costs decline with larger size. Large firms are abler to implement specialization. A combined firm may operate more efficiently than two separate firms. A firm can achieve greater operating efficiency in several different ways through a merger or an acquisition. When companies merge, overheads are reduced and operational efficiency is improved

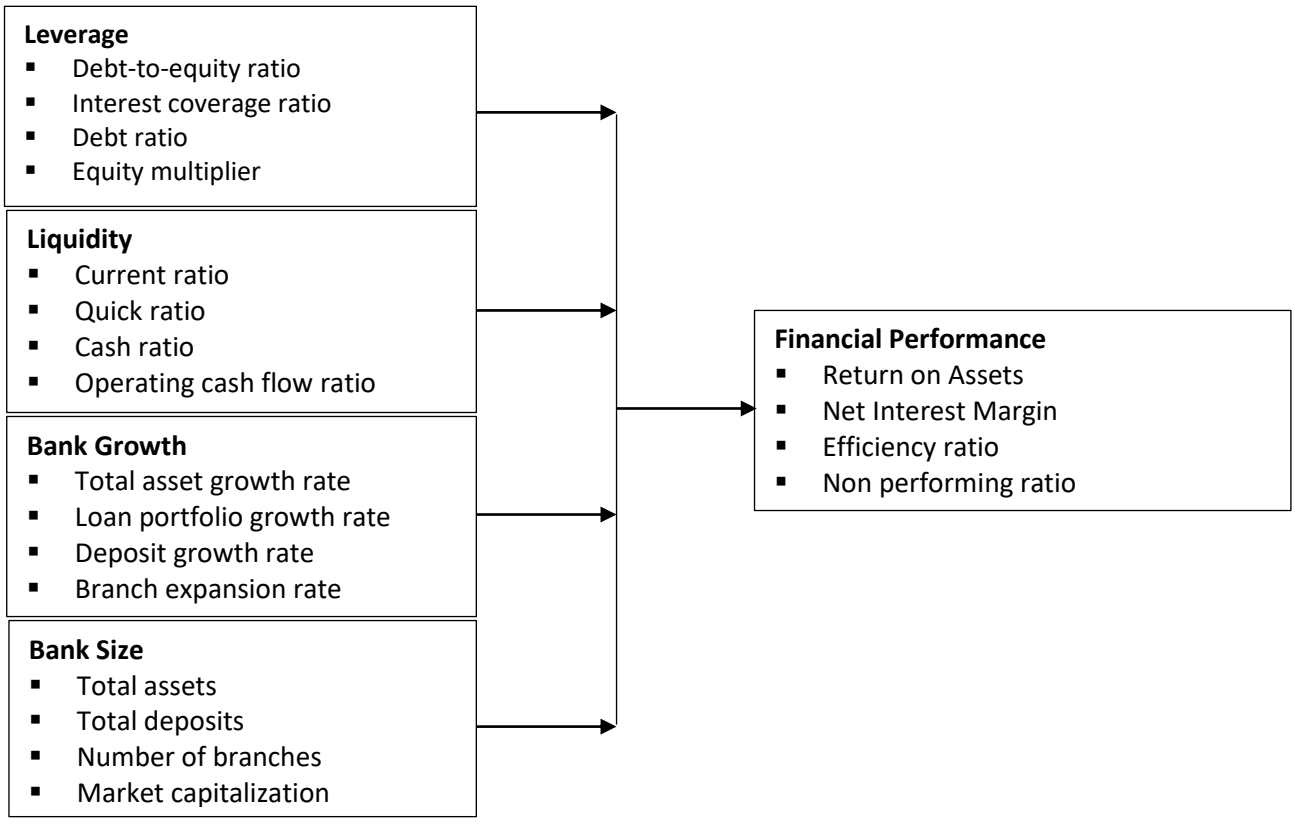
since there is a sharing of central facilities such as corporate headquarters, top management, staff and computer services. Through economies of vertical integration; vertical mergers make it easier to coordinate closely related operating activities. This theory links with the study variable of market share development (Ogada & Achoki, 2016).

Agency Theory

Agency theory was first exposited by Alchian and Demsetz (1972) and later developed further by Jensen and Meckling (1976). It is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hire the gents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents. The theory is conceptually a simple theory that reduces the corporation to two participants of managers and shareholders. The theory posits that employees or managers in organizations can perpetuate self-interest at the expense of the shareholders. However, the shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Cuervo-Cazurra, Mudambi, & Pedersen, 2019).

This theory is based on the assumption that there are conflicts of interest between various parties such as shareholders, corporate managers and debtors of an organization. However, since then, the finance theory has developed both theoretically and empirically to allow a fuller investigation of the problems caused by divergences of interest between shareholders and corporate managers. The Agency theory indicates that agency problems arise because of the impossibility of perfectly contracting for every possible action of an agent whose decisions affect both his own welfare and the welfare of the principal. The main challenge that arises from the agency conflict is how to induce the agent to act in the best interests of the principal (Pepper, Pepper., & Barlow, 2019).

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Empirical Review

Kaol (2017) determined the effects of mergers and acquisitions on the financial performance of commercial banks in Kenya. The study was focused on commercial banks that had merged or undergone acquisition between the period 2008 and 2016 in Kenya. The study adopted a descriptive research design to determine the relationship between the variables within a population. The population of the study consisted of financial institutions in Kenya that had either merged or undergone acquisitions from 1989 to 2017 as approved by the Central Bank of Kenya. The sample was selected using the purposive method which involved studying ten commercial banks that had merged between the years 2008 to 2016. Secondary data, three years before and three years after the event was calculated from the banks' audited financial statements, bank supervision annual reports published by Central Bank of Kenya, and the respective bank websites. Data analysis method included descriptive statistic, correlation and regression analysis methods. Statistical Package for Social Sciences(SPSS) version 21 was used as the data analysis tool.

Ombaka and Jagongo (2018) sought to establish the influence of mergers and acquisitions on financial performance of commercial banks in Kenya. Descriptive research was employed to investigate the effect of M&A on a specific financial performance of the commercial banks in Kenya. The study was anchored on three theories which include differential efficiency theory, financial synergy theory and hubris theory. The population of a study consisted of 9 banks that have merged or acquired in the period 2010 to May 2017 in Kenya. The study used secondary data from audited annual financial statements of respective banks over the period. The study established that operational synergy, differential efficiency, risk diversification and market share development as indicators of mergers and acquisitions have a significant influence on the financial performance of the commercial banks in Kenya.

Ghimire (2019) studied the effect of merger on the financial performance of commercial bank when Nepal Rastra Bank introduced a forceful merger bylaws policy in the year of 2011. Three-year pre-merge and post-merger financial performance was analysis of three commercial banks which are merged in 2015 AD. The study was based on the descriptive and analytical research design. Performance of commercial banks was measured by different variables such as ROA, ROE, EPS, profit margin, capital adequacy, assets quality, liquidity and debt to equity ratios. Pared sample t-test was used to measure the significant change pre-merger performance and post-merger performance. The study concluded that Returns on Assets, earning per share, profit margin, liquidity increased significantly after the merger of the bank.

METHODOLOGY

This study used an event study methodology. The study used a census of all listed banks. Therefore, the sample was 12 with 5 years financial data making 60 data points.

Secondary data was retrieved from audited financial statements, annual reports published by the Central Bank of Kenya, and the respective bank websites. Financial ratios, including return on assets (ROA), return on equity (ROE), opportunity cost, and share equity ratios, were then obtained from the statements and annual reports of the commercial banks under study. Secondary sources of data were used to ensure that the study was accurate and reliable. The secondary data that the researcher intended to use helped to meet the desired objective (Sekeran & Bounge, 2016).

Multiple analysis of regression requires distribution of normality data. Therefore, skewness and kurtosis were used to test normality. Variable inflation factor (VIF) and tolerance statistics were used in this study to test multicollinearity. Multicollinearity exists where VIF is greater than 10 and tolerance less than 0.1 according to Dudovskiy (2019). The Durbin-Watson test, which measures the presence and strength of any linear relationship between successive residuals was used to test multicollinearity.

The data were collected, cleaned, edited, coded, and fed into Excel before being imported into SPSS for analysis. Descriptive statistics were used in terms of mean, standard deviation, frequency, and percentages. Inferential statistics were used to draw inferences about the cause-effect relationship between mergers and acquisitions and the financial performance of commercial banks using a regression model.

DATA ANALYSIS, PRESENTATION AND DISCUSSION

Diagnostic Tests

The data was subjected to various diagnostic tests before the analysis so as to enable subsequent analyses. Test for normality were conducted using ANOVA, Test for Autocorrelation was done using Durbin-Watson Statistic and Test for Multicollinearity using Variance Inflation Factors (VIFs). All the values obtained for the various tests are discussed hereunder.

Test for Autocorrelation

From Table 1 the value of Durbin- Watson was 1.767 hence there was no existence of autocorrelation since the value was far below the threshold for autocorrelation of 2.5.

Table 1: Test for Autocorrelation

Model	Durbin-Watson
1	1.767[a]

a. Predictors: (Constant), Bank Size, Liquidity, Bank Growth, Leverage
b. Dependent Variable: Financial Performance

Test for Multicollinearity

From Table 2 the VIF for leverage was 8.531, VIF for liquidity was 1.449, VIF for bank growth was 2.593 and VIF of bank size was 8.515. This meant that variance inflation factors for all predictor variables were less than 10 hence there was no multicollinearity.

Table 2: Tests for Multicollinearity

	Collinearity Statistics	
Independent Variables	**Tolerance**	**VIF**
Leverage	.117	8.531
Liquidity	.690	1.449
Bank Growth	.386	2.593
Bank Size	.117	8.515

a. Dependent Variable: Financial Performance

Test for Normality

Normality tests can be measured using the Z-values of skewness and Kurtosis which should be between -1.96 and+ 1.96. Kurtosis and Skewness were used in this study. Table 2 shows a measure of skewness .172 Standard Error (SE) of 0.304 and Kurtosis measure of 0.777 (SE 0.599). The values for skewness and Kurtosis are all within the span of -1.96 to 1.96. The kurtosis measure of 0.777 suggests that the data has positive kurtosis. This means that the distribution of the data has heavier tails and is more peaked compared to a normal distribution. In other words, the data has more extreme values in the tails and a sharper peak at

the center. Therefore, the study asserts that the data is normally distributed.

Table 3: Skewness and Kurtosis Measures

		Statistic	Std. Error
Mean		2.7581	.09393
95% Confidence Interval for Mean	Lower Bound	2.5702	
	Upper Bound	2.9459	
5% Trimmed Mean		2.7491	
Median		3.0000	
Variance		.547	
Std. Deviation		.73964	
Minimum		1.00	
Maximum		5.00	
Range		4.00	
Interquartile Range		1.00	
Skewness		.172	.304
Kurtosis		.777	.599

After the data was found to be normal and also there being no autocorrelation and multicollinearity amongst the study variables, the researcher proceeded to conduct tests of association between the study variables.

Correlation Analysis of the Study Variables

The correlation analysis of the study variables is presented in the table below

Table 4: Correlation Analysis

Correlations

		Leverage	Liquidity	Bank Growth	Bank Size	Financial Performance
Leverage	Pearson Correlation	1	.539**	.757**	.934**	.911**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	60	60	60	60	60
Liquidity	Pearson Correlation	.539**	1	.483**	.488**	.622**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	60	60	60	60	60
Bank Growth	Pearson Correlation	.757**	.483**	1	.771**	.793**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	60	60	60	60	60
Bank Size	Pearson Correlation	.934**	.488**	.771**	1	.911**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	60	60	60	60	60
Financial Performance	Pearson Correlation	.911**	.622**	.793**	.911**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	60	60	60	60	60

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation table in the study exploring the effect of mergers and acquisitions on the financial performance of listed banks at the Nairobi Securities Exchange underscores robust

relationships between key variables, with mergers and acquisitions serving as a central driver. The strong correlation between leverage and financial performance (r = 0.911) points to the interplay between a bank's reliance on borrowed funds and its financial success, suggesting that strategic leveraging as a result of mergers and acquisitions can significantly impact a bank's overall performance. Furthermore, the strong correlation between liquidity and financial performance (r = 0.622) emphasizes the importance of adequate liquidity management, a critical aspect of post-merger and acquisition operations, to bolster a bank's ability to handle financial challenges and meet obligations effectively.

Moreover, the strong correlation between bank growth and financial performance (r = 0.793) accentuates the role of expansion strategies following mergers and acquisitions in contributing to a bank's financial well-being. This connection suggests that successful growth initiatives resulting from mergers and acquisitions can lead to improved financial performance, highlighting the potential benefits of increased market presence and economies of scale. Similarly, the strong correlation between bank size and financial performance (r = 0.911) underscores the advantages that larger banks, often resulting from mergers and acquisitions, can enjoy, such as diversified revenue streams and enhanced bargaining power, leading to overall improved financial performance.

Additionally, the strong correlation between bank size and leverage (r = 0.934) illuminates how the size of a bank, influenced by mergers and acquisitions, can impact its utilization of leverage. Larger banks may leverage their expanded size and resources to access additional funds for various operations or investments, further solidifying the critical role of mergers and acquisitions in shaping the financial landscape of listed banks at the Nairobi Securities Exchange.

Regression Analysis of the Study Variables

Regression analysis was carried out to determine the linearity of the relationship between the dependent (financial performance) and mergers and acquisitions (Bank Size, Liquidity, Bank Growth, Leverage) being the independent variables of the study. The results were tabulated and discussed as shown in the subsections here below;

Multiple Regression Model Summary

The table 5 below shows the value of Adjusted R-square of 0.862 implies that 86.2% of the total variance of financial performance is explained by the model. This means that 17.1% of the total variance of financial performance cannot be explained by the model. Hence the results reveal that shareholders equity, earnings per share and operational cost affect financial performance. The table shows the results for variations between the dependent and independent variables.

Table 5: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.945[a]	.893	.886	.27801	1.767

a. Predictors: (Constant), Bank Size, Liquidity, Bank Growth, Leverage
b. Dependent Variable: Financial Performance

Analysis of the Variance of the Study Variables (ANOVA)

The residuals are positive, implying that there was a significant relationship between the dependent and independent variables used in the study. From the ANOVA Table 6 below, it was established that Bank Size, Liquidity, Bank Growth and Leverage affected financial performance significantly since $F_{critical}$at (4, 59) degrees of freedom is 2.53< $F_{calculated}$ 115.171at 5% level of significance. The ANOVA table was generated from the Analysis.

Table 5: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	35.607	4	8.902	115.171	.000[b]
Residual	4.251	55	.077		
Total	39.858	59			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Bank Size, Liquidity, Bank Growth, Leverage

Coefficients of the Regression Model

The co-efficient of the regression model were obtained from the analysis and presented. The regression equation is as shown below;

$$\mathbf{Y=0.092+0.254X_1+0.186X_2+0.151X_3+0.366X_3}$$

Y –Financial Performance

$\mathbf{X_1}$– Leverage

$\mathbf{X_2}$–Liquidity

$\mathbf{X_3}$ –Bank Growth

$\mathbf{X_4}$ –Bank Size

Table 7 presents the regression coefficients results for the standard multiple regression that was conducted for the study.

Table 6: Coefficients of the Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.092	.168		.549	.585		
Liquidity	.186	.055	.179	3.373	.001	.690	1.449
Bank Growth	.151	.072	.148	2.090	.041	.386	2.593
Bank Size	.366	.112	.419	3.262	.002	.117	8.515

a. Dependent Variable: Financial Performance

The regression results for the study on the effect of mergers and acquisitions on the financial performance of listed banks at the Nairobi Securities Exchange reveal valuable insights into the impact of various factors on financial performance. Notably, the increase in leverage (X1) resulting from mergers and acquisitions shows a positive relationship with financial performance, with a standardized coefficient (Beta) of 0.311 (p = 0.019). This finding suggests that the strategic use of leverage following mergers and acquisitions contributes to improved financial performance for listed banks, potentially indicating the benefits of increased financial resources and operational efficiencies resulting from these transactions.

Additionally, the analysis demonstrates the positive influence of liquidity (X2) on financial performance, with a standardized coefficient of 0.179 (p = 0.001). This implies that banks with improved liquidity positions, potentially resulting from efficient post-merger and acquisition integration strategies, are better positioned to achieve favorable financial outcomes. The study underscores the importance of maintaining adequate liquidity levels to support

banking operations and capitalize on emerging market opportunities following mergers and acquisitions.

Furthermore, the study reveals that bank growth (X3) and bank size (X4) have a significant positive impact on financial performance, with standardized coefficients of 0.148 (p = 0.041) and 0.419 (p = 0.002), respectively. These findings suggest that the expansion of banking operations and the increase in the size of banks resulting from successful mergers and acquisitions contribute to enhanced financial performance. The results emphasize the potential benefits of increased market presence and economies of scale resulting from successful growth strategies and effective integration processes following mergers and acquisitions in the banking sector.

The regression analysis highlights the importance of leveraging the opportunities presented by mergers and acquisitions to enhance financial performance for listed banks at the Nairobi Securities Exchange. The study underscores the critical role of strategic decision-making, post-merger integration, and operational management in realizing the full potential of mergers and acquisitions and maximizing the financial performance of banks operating within the exchange.

Testing of Hypothesis

The first null hypothesis stated that leverage of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange. The results indicated that leverage of mergers and acquisitions had a significant effect on the financial performance of listed banks in the Nairobi Securities Exchange (B_1=0.311, t=2.415 & p=0.001<0.05). Hence the study rejected H_{01} leading to the conclusion that leverage of mergers and acquisitions had a significant effect on the financial performance of listed banks in the Nairobi Securities Exchange

The second null hypothesis stated that liquidity of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange. The results indicated that liquidity of mergers and acquisitions had a significant effect on the financial performance of listed banks in the Nairobi Securities Exchange (B_2=0.179, t=3.373 & p=0.001<0.05). Hence the study rejected H_{02} leading to the conclusion that liquidity of mergers and acquisitions had a significant effect on the financial performance of listed banks in the Nairobi Securities Exchange

The third null hypothesis stated that bank growth of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange. The results indicated that bank growth of mergers and acquisitions had a significant effect on the financial performance of listed banks in the Nairobi Securities Exchange (B_3=0.148, t=2.090 & p=0.041<0.05). Hence the study rejected H_{03} leading to the conclusion that bank growth of mergers and acquisitions had a significant effect on the financial performance of listed banks in the Nairobi Securities Exchange

The first null hypothesis stated that leverage of mergers and acquisitions has no significant impact on the financial performance of listed banks in the Nairobi Securities Exchange. The results indicated that bank size of mergers and acquisitions had a significant effect on the financial performance of listed banks in the Nairobi Securities Exchange (B_4=0.419, t=3.262 & p=0.002<0.05). Hence the study rejected H_{04} leading to the conclusion that bank size of mergers and acquisitions had a significant effect on the financial performance of listed banks in the Nairobi Securities Exchange

Table 8 presents the research hypotheses results on the impact of mergers and acquisitions on the financial performance of listed banks in the Nairobi Securities Exchange based on the multiple regression analysis conducted in this study.

Table 7: Tests of Hypotheses Results

Research Hypotheses	B	t	p-value	Decision
Leverage of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange	.311	2.415	.019	H_{01} rejected since p=<0.05
Liquidity of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange	.179	3.373	.001	H_{02} rejected since p=<0.05
Bank growth of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange	.148	2.090	.041	H_{03} rejected since p=<0.05
Bank Size of mergers and acquisitions has no significant effect on the financial performance of listed banks in the Nairobi Securities Exchange	.419	3.262	.002	H_{04} rejected since p=<0.05

CONCLUSIONS AND RECOMMENDATIONS

The study concludes that mergers and acquisitions significantly impact the financial performance of listed banks within the Nairobi Securities Exchange, as evidenced by the comprehensive analysis of the study variables. Through correlation and regression analyses, it became apparent that leveraging, liquidity management, bank growth, and bank size are crucial factors influenced by these strategic actions, ultimately affecting the overall financial performance of the banks. The study underscores the importance of prudent decision-making and effective post-merger integration strategies in leveraging the potential benefits of these transactions and maximizing the financial performance of the banks involved.

The conclusions drawn from the current study resonate with the findings from previous empirical research, providing a more comprehensive understanding of the impact of mergers and acquisitions on the financial performance of banks, particularly within the African context. Kaol's (2017) study on the effects of mergers and acquisitions on the financial performance of commercial banks in Kenya aligns with the current research, emphasizing the significant relationship between these strategic actions and financial outcomes. Similarly, Ombaka and Jagongo (2018) highlighted the influence of various indicators related to mergers and acquisitions, such as operational synergy and market share development, on the financial performance of commercial banks in Kenya, supporting the notion that strategic factors play a crucial role in shaping the overall performance of merged entities. The idea that mergers can positively impact key financial metrics, such as returns on assets, earnings per share, and liquidity, is further supported by Ghimire's (2019) study on the impact of mergers on the financial performance of commercial banks in Nepal. This further supports the idea that well-planned mergers and acquisitions can result in improved financial performance. When taken as a whole, these studies offer a sophisticated comprehension of the complex dynamics at play in the relationship between mergers and acquisitions and bank financial performance. They provide important insights into the strategic factors that

account for successful integration and improved performance within the banking industry.

Recommendations of the Study

Policymakers play a pivotal role in shaping the landscape for mergers and acquisitions within the banking sector. As such, it is imperative for regulators to establish clear and transparent guidelines that facilitate efficient and smooth processes for mergers and acquisitions. Regular assessments and stringent monitoring of post-merger integration processes are vital to ensure that anticipated benefits are realized and potential risks are effectively managed. Additionally, policymakers should prioritize the development of a robust and supportive financial infrastructure that fosters seamless integration and operation of merged entities, thereby contributing to the establishment of a competitive and stable banking environment.

To advance theoretical understanding in the field, researchers and theorists should delve deeper into the intricate dynamics between mergers and acquisitions and various financial performance indicators, considering the specific context and characteristics of the banking industry. By focusing on developing comprehensive models that incorporate both financial and operational aspects, researchers can contribute to enriching the existing body of knowledge, providing valuable insights into the complexities inherent in mergers and acquisitions within the banking sector. This approach would pave the way for a more nuanced understanding of the multifaceted implications of mergers and acquisitions, ultimately enhancing decision-making processes within the sector.

Practitioners, including banking professionals and decision-makers, must prioritize thorough due diligence and comprehensive risk assessments before engaging in any merger or acquisition activity. By aligning these strategic moves with the organization's objectives and risk tolerance, practitioners can mitigate potential pitfalls and ensure a smoother integration process. Emphasis should be placed on effective post-merger integration strategies, encompassing cultural alignment, operational streamlining, and technology assimilation, to maximize the potential synergies and minimize disruptions. Regular monitoring and evaluation of financial and operational performance metrics post-merger is critical, allowing for timely adjustments and interventions to optimize the benefits of the merger or acquisition, ultimately fostering sustainable growth and stability within the financial markets.

Suggestions for Further Research

For further studies in the realm of mergers and acquisitions and their impact on the financial performance of banks, researchers could explore the long-term effects of these strategic actions on the stability and resilience of the banking sector. This could involve an in-depth analysis of how mergers and acquisitions influence the overall systemic risk within the financial industry, considering the interconnectedness of financial institutions and the broader macroeconomic landscape. Such studies could shed light on the potential implications for financial stability and the regulatory frameworks needed to safeguard against systemic risks arising from increased consolidation within the banking sector.

Furthermore, future research endeavors could delve into the specific mechanisms and strategies employed during post-merger integration processes, aiming to identify best practices that lead to successful outcomes. Analyzing case studies of both successful and unsuccessful mergers and acquisitions in the banking sector would provide valuable insights into the critical success factors and potential pitfalls that institutions should consider during the integration phase. Understanding the intricacies of effective integration strategies, including cultural alignment, technological assimilation, and operational streamlining, could significantly enhance the practical understanding and implementation of successful merger and acquisition activities within the banking industry.

In addition, there is a need for research exploring the impact of mergers and acquisitions on various stakeholders beyond the financial performance metrics, such as the effects on employees, customers, and the broader community. Investigating the implications of these strategic actions on job security, customer service, and access to financial services would provide a comprehensive understanding of the broader socio-economic consequences. Moreover, examining the influence of mergers and acquisitions on market competition and consumer welfare would contribute to the ongoing discourse on maintaining a healthy and competitive banking environment, ensuring that the interests of all stakeholders are adequately considered in the decision-making processes related to mergers and acquisitions.

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